

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Charter Township of Grass Lake
Jackson County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended December 31, 2005

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INDEPENDENT AUDITORS' REPORT

Board of Trustees

Charter Township of Grass Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Grass Lake, Michigan, as of December 31, 2005, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Charter Township of Grass Lake, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Grass Lake, Michigan, as of December 31, 2005, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The budgetary comparison information, on pages 23 - 25, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Charter Township of Grass Lake, Michigan, has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Grass Lake, Michigan's basic financial statements. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

February 7, 2006

BASIC FINANCIAL STATEMENTS

Charter Township of Grass Lake
STATEMENT OF NET ASSETS
December 31, 2005

	<u>Governmental activities</u>
ASSETS	
Current assets:	
Cash	\$ 1,079,105
Receivables, net	425,039
Prepaid expenses	<u>39,369</u>
Total current assets	<u>1,543,513</u>
Noncurrent assets:	
Receivables, net	1,079,230
Capital assets, net of accumulated depreciation	<u>1,500,099</u>
Total noncurrent assets	<u>2,579,329</u>
Total assets	<u>4,122,842</u>
LIABILITIES	
Current liabilities:	
Payables	169,879
Deferred revenue	420,180
Bonds and contracts payable	<u>93,918</u>
Total current liabilities	<u>683,977</u>
Noncurrent liabilities:	
Bonds and contracts payable	<u>1,514,936</u>
Total liabilities	<u>2,198,913</u>
NET ASSETS	
Invested in capital assets	1,011,099
Restricted for:	
Cemetery perpetual care	9,890
Public safety - fire protection	365,233
Public safety - inspections	39,347
Public works	123,569
Culture and recreation	13,135
Unrestricted	<u>361,656</u>
Total net assets	<u>\$ 1,923,929</u>

See notes to financial statements

Charter Township of Grass Lake
STATEMENT OF ACTIVITIES
Year ended December 31, 2005

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>			<u>Net (expenses) revenues and changes in net assets</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	
Governmental activities:					
Legislative	\$ 12,626	\$ -	\$ -	\$ -	\$ (12,626)
General government	300,752	49,840	-	-	(250,912)
Public safety	252,197	75,360	-	-	(176,837)
Public works	170,357	26,181	5,830	-	(138,346)
Community and economic development	27,144	23,124	-	-	(4,020)
Culture and recreation	177	-	-	34,360	34,183
Interest on long-term debt	<u>63,985</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(63,985)</u>
 Total governmental activities	 <u>\$ 827,238</u>	 <u>\$ 174,505</u>	 <u>\$ 5,830</u>	 <u>\$ 34,360</u>	 <u>(612,543)</u>
 General revenues:					
Property taxes					381,355
State shared revenue					236,103
Cable franchise fees					2,530
Interest income					46,380
Special item:					
Gain on sale of capital assets					<u>78,320</u>
 Total general revenues					<u>744,688</u>
 Change in net assets					132,145
 Net assets - beginning					<u>1,791,784</u>
 Net assets - ending					\$ 1,923,929

See notes to financial statements

Charter Township of Grass Lake
BALANCE SHEET - governmental funds
December 31, 2005

	<u>General</u>	<u>Fire Operating</u>	<u>Wolf Lake Sewer District</u>	<u>Water District</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS						
Cash	\$ 418,119	\$ 476,921	\$ 44,138	\$ 62,603	\$ 36,162	\$ 1,037,943
Receivables	<u>158,204</u>	<u>125,432</u>	<u>614,855</u>	<u>579,466</u>	<u>26,312</u>	<u>1,504,269</u>
Total assets	<u>\$ 576,323</u>	<u>\$ 602,353</u>	<u>\$ 658,993</u>	<u>\$ 642,069</u>	<u>\$ 62,474</u>	<u>\$ 2,542,212</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Payables	\$ 102,733	\$ 7,693	\$ 44,138	\$ 5,000	\$ -	\$ 159,564
Deferred revenue	<u>141,414</u>	<u>230,852</u>	<u>614,855</u>	<u>579,466</u>	<u>47,914</u>	<u>1,614,501</u>
Total liabilities	<u>244,147</u>	<u>238,545</u>	<u>658,993</u>	<u>584,466</u>	<u>47,914</u>	<u>1,774,065</u>
Fund balances:						
Reserved for perpetual care	9,890	-	-	-	-	9,890
Unreserved:						
Designated for capital purchases	-	237,506	-	-	-	237,506
Undesignated	<u>322,286</u>	<u>126,302</u>	<u>-</u>	<u>57,603</u>	<u>14,560</u>	<u>520,751</u>
Total fund balances	<u>332,176</u>	<u>363,808</u>	<u>-</u>	<u>57,603</u>	<u>14,560</u>	<u>768,147</u>
Total liabilities and fund balances	<u>\$ 576,323</u>	<u>\$ 602,353</u>	<u>\$ 658,993</u>	<u>\$ 642,069</u>	<u>\$ 62,474</u>	<u>\$ 2,542,212</u>
Total fund balances - all governmental funds						\$ 768,147
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 5) are different because:						
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.						1,500,099
Prepaid expenses are not a current financial resource and, therefore, are not reported in the funds.						39,369
Special assessments receivable are not available to pay for the current period's expenditures and, therefore, are deferred in the funds.						1,194,321
Long-term liabilities, including contracts payable, are not due and payable in the current period and, therefore, are not reported in the funds.						(1,608,854)
Interest related to long-term liabilities is not due and payable in the current period and, therefore, is not reported in the funds.						(8,500)
Net assets of the Building Inspections Fund that have been combined with those of <i>governmental activities</i> .						<u>39,347</u>
Net assets of <i>governmental activities</i>						<u>\$ 1,923,929</u>

See notes to financial statements

Charter Township of Grass Lake

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - governmental funds

Year ended December 31, 2005

	<u>General</u>	<u>Fire Operating</u>	<u>Wolf Lake Sewer District</u>	<u>Water District</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES						
Property taxes	\$ 124,096	\$ 213,947	\$ -	\$ -	\$ 43,312	\$ 381,355
Licenses and permits	22,980	-	-	-	-	22,980
State grants	241,933	-	-	-	-	241,933
Charges for services	36,834	12,902	-	868	-	50,604
Interest and rentals	13,866	5,779	23,138	3,419	178	46,380
Other	40,992	-	47,681	71,173	34,360	194,206
Total revenues	<u>480,701</u>	<u>232,628</u>	<u>70,819</u>	<u>75,460</u>	<u>77,850</u>	<u>937,458</u>
EXPENDITURES						
Legislative	12,626	-	-	-	-	12,626
General government	279,911	-	-	-	-	279,911
Public safety	-	121,083	-	-	-	121,083
Public works	170,357	-	-	-	-	170,357
Community and economic development	27,144	-	-	-	-	27,144
Capital outlay	27,089	9,975	-	-	52,579	89,643
Debt service:						
Principal	-	-	47,681	25,000	25,000	97,681
Interest	-	-	23,138	23,792	17,555	64,485
Total expenditures	<u>517,127</u>	<u>131,058</u>	<u>70,819</u>	<u>48,792</u>	<u>95,134</u>	<u>862,930</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(36,426)</u>	<u>101,570</u>	<u>-</u>	<u>26,668</u>	<u>(17,284)</u>	<u>74,528</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	25,157	25,157
Transfers out	-	(25,157)	-	-	-	(25,157)
Total other sources (uses)	<u>-</u>	<u>(25,157)</u>	<u>-</u>	<u>-</u>	<u>25,157</u>	<u>-</u>
SPECIAL ITEM						
Proceeds from sale of building	-	89,300	-	-	-	89,300
NET CHANGE IN FUND BALANCES	<u>(36,426)</u>	<u>165,713</u>	<u>-</u>	<u>26,668</u>	<u>7,873</u>	<u>163,828</u>
FUND BALANCES - BEGINNING	<u>368,602</u>	<u>198,095</u>	<u>-</u>	<u>30,935</u>	<u>6,687</u>	<u>604,319</u>
FUND BALANCES - ENDING	<u>\$ 332,176</u>	<u>\$ 363,808</u>	<u>\$ -</u>	<u>\$ 57,603</u>	<u>\$ 14,560</u>	<u>\$ 768,147</u>

See notes to financial statements

Charter Township of Grass Lake
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
- governmental funds (Continued)
Year ended December 31, 2005

Net change in fund balances - total governmental funds	\$	163,828
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Amounts reported for *governmental activities* in the statement of activities (page 6) are different because:

Capital assets:

Assets acquired	78,981
Provision for depreciation	(69,891)
Assets sold	(10,980)

Long-term debt - principal repayments	97,681
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Changes in other assets/liabilities:

Net decrease in deferred revenue	(118,853)
Net decrease in prepaid expenses	(7,376)
Net decrease in accrued interest	500

The net expenses of the Building Inspections Fund are reported with <i>governmental activities</i> .	(1,745)
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Change in net assets of <i>governmental activities</i>	\$	<u>132,145</u>
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Charter Township of Grass Lake
STATEMENT OF NET ASSETS - proprietary fund
December 31, 2005

	<u>Building Inspections</u>
ASSETS	
Cash	\$ 41,162
LIABILITIES	
Payables	<u>1,815</u>
NET ASSETS	39,347
 Amounts reported for business-type activities in the government-wide statement of net assets (page 5) are different because:	
 Assets and liabilities of the Building Inspections Fund have been combined with those of <i>governmental activities</i> .	
	<u>(39,347)</u>
 Net assets of business-type activities	 <u>\$ -</u>

See notes to financial statements

Charter Township of Grass Lake

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET

ASSETS - *proprietary fund*

Year ended December 31, 2005

	<i>Building Inspections</i>
OPERATING REVENUES	
Charges for services - licenses and permits	\$ 62,458
OPERATING EXPENSES	
Personnel costs	7,499
Contracted services	<u>56,704</u>
Total operating expenses	<u>64,203</u>
CHANGE IN NET ASSETS	(1,745)
NET ASSETS - BEGINNING	<u>41,092</u>
NET ASSETS - ENDING	<u>\$ 39,347</u>
CHANGE IN NET ASSETS	\$ (1,745)
 Amounts reported for business-type activities in the government-wide statement of activities (page 6) are different because:	
Revenues and expenses of the Building Inspections Fund have been combined with those of the <i>governmental activities</i> .	<u>1,745</u>
Change in net assets of business-type activities	<u>\$ -</u>

See notes to financial statements

Charter Township of Grass Lake
STATEMENT OF CASH FLOWS - proprietary fund
Year ended December 31, 2005

	<u>Building Inspections</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 62,458
Payments to vendors and suppliers	(59,213)
Payments to employees	<u>(7,499)</u>
Net cash used in operating activities	(4,254)
CASH - BEGINNING	<u>45,416</u>
CASH - ENDING	<u><u>\$ 41,162</u></u>
Reconciliation of change in net assets to net cash used in operating activities:	
Change in net assets	\$ (1,745)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Decrease in payables	<u>(2,509)</u>
Net cash used in operating activities	<u><u>\$ (4,254)</u></u>

See notes to financial statements

Charter Township of Grass Lake
STATEMENT OF FIDUCIARY NET ASSETS - *fiduciary funds*
December 31, 2005

	<u><i>Agency funds</i></u>
ASSETS	
Cash	<u>\$ 981,991</u>
LIABILITIES	
Due to other governmental units	<u>\$ 981,991</u>

See notes to financial statements

Charter Township of Grass Lake
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Charter Township of Grass Lake, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present the activities of the Township. There are no component units, legally separate entities for which the Township is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Charter Township of Grass Lake
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Fire Operating Fund accounts for the financial resources used for the operation and maintenance of the Township Fire Department. Revenues are primarily derived from property taxes.

The Wolf Lake Sewer District accounts for the financial resources used for payments of long-term contractual obligations to the Jackson County Drain Commission. Revenues are primarily derived from special assessments and connection fees.

The Water District Fund accounts for the financial resources used for payments of long-term contractual obligations to Jackson County. Revenues are primarily derived from special assessments and connection fees.

The Township reports a single proprietary fund, its Building Inspection Fund, which accounts for operations (1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Township reports a single fiduciary fund type. The Township's agency funds account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Charter Township of Grass Lake
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector standards.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Pooled interest income is proportionately allocated to all funds.

ii) Receivables - In general, outstanding balances between funds are reported as "due to/from other funds." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide financial statements.

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning January 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 60 years
Equipment	3 - 10 years
Vehicles	10 - 20 years

Charter Township of Grass Lake
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

v) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vii) Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on February 14 (with the final collection date of February 28), at which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, taxes have been deferred from recognition as revenue until the following year.

The 2004 taxable valuation of the Township totaled \$166,572,944, on which ad valorem taxes levied consisted of the following:

<u>Fund</u>	<u>Millage rate</u>	<u>Purpose</u>	<u>Taxes raised</u>
General	0.7333	Operating	\$ 122,354
Fire Operating	1.2819	Operating	213,902
Fire Building	0.256	Operating	43,312

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations in budgetary funds - P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The Township's significant budgetary violations are as follows:

<u>Fund</u>	<u>Function</u>	<u>Total appropriation</u>	<u>Actual expenditures</u>	<u>Variance</u>
General	Public works	\$ 113,355	\$ 170,357	\$ 57,002
Fire Operating	Other financing uses	-	25,157	25,157

Charter Township of Grass Lake
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH:

The Township's deposits were reported in the basic financial statements in the following categories:

	<i>Governmental activities</i>	<i>Fiduciary funds</i>	<i>Totals</i>
Cash	<u>\$ 1,079,105</u>	<u>\$ 981,991</u>	<u>\$ 2,061,096</u>

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. Some of the Township's deposits are not in accordance with statutory authority because they are held in financial institutions that do not maintain an office in the State of Michigan.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. As of December 31, 2005, \$1,333,607 of the Township's bank balances of \$2,107,530 was exposed to custodial credit risk because it was uninsured and uncollateralized. The Township believes that it is impractical to insure all bank deposits. The Township evaluates each financial institution with which it deposits funds and assesses the risk level of each financial institution. Only the institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the Township's individual major funds are as follows:

<i>Fund</i>	<i>Property taxes</i>	<i>Special assessments</i>	<i>Inter- governmental</i>	<i>Accounts</i>	<i>Totals</i>
General	\$ 76,368	\$ -	\$ 80,015	\$ 1,821	\$ 158,204
Fire Operating	125,432	-	-	-	125,432
Wolf Lake Sewer	-	614,855	-	-	614,855
Water District	-	579,466	-	-	579,466
Nonmajor governmental	<u>26,312</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,312</u>
Totals	<u>\$ 228,112</u>	<u>\$ 1,194,321</u>	<u>\$ 80,015</u>	<u>\$ 1,821</u>	<u>\$ 1,504,269</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ 1,079,230</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,079,230</u>

All receivables are considered fully collectible.

Charter Township of Grass Lake
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES (Continued):

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenues are as follows:

<u>Fund</u>	<u>Unearned Property taxes</u>	<u>Unavailable Special assessments</u>	<u>Totals</u>
General	\$ 141,414	\$ -	\$ 141,414
Fire Operating	230,852	-	230,852
Wolf Lake Sewer	-	614,855	614,855
Water District	-	579,466	579,466
Nonmajor governmental	47,914	-	47,914
Totals	<u>\$ 420,180</u>	<u>\$ 1,194,321</u>	<u>\$ 1,614,501</u>

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	<u>\$ 198,769</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 198,769</u>
Capital assets being depreciated:				
Buildings and improvements	1,049,013	24,748	(66,550)	1,007,211
Equipment	282,207	54,233	-	336,440
Vehicles	775,600	-	-	775,600
Subtotal	<u>2,106,820</u>	<u>78,981</u>	<u>(66,550)</u>	<u>2,119,251</u>
Less accumulated depreciation for:				
Buildings and improvements	(164,586)	(22,845)	55,570	(131,861)
Equipment	(100,284)	(22,941)	-	(123,225)
Vehicles	(538,730)	(24,105)	-	(562,835)
Subtotal	<u>(803,600)</u>	<u>(69,891)</u>	<u>55,570</u>	<u>(817,921)</u>
Total capital assets being depreciated, net	<u>1,303,220</u>	<u>9,090</u>	<u>(10,980)</u>	<u>1,301,330</u>
Governmental activities capital assets, net	<u>\$ 1,501,989</u>	<u>\$ 9,090</u>	<u>\$ (10,980)</u>	<u>\$ 1,500,099</u>

Charter Township of Grass Lake
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:	
General government	\$ 13,741
Public safety	55,973
Culture and recreation	<u>177</u>
Total governmental activities	<u>\$ 69,891</u>

NOTE 6 - LONG-TERM DEBT:

\$565,000 2002 Jackson County contract payable - payable in annual installments ranging from \$25,000 to \$50,000, plus interest at 3.40% to 6.00%; final payment due April 2022 \$ 505,000

The Township has a contractual agreement to remit to the Wolf Lake Sewer Common Fund (the Common Fund), a joint venture of the Township, all principal and interest collections arising from special assessments levied on properties served by the Common Fund in the Wolf Lake sewer district. In the event that the Common Fund is unable to meet its debt service requirements, an assessment may be made against the Township. The Township has pledged its full faith and credit for the payment of its share (23.27%) of any such deficiency. 614,854

\$514,000 2004 installment purchase agreement - payable in annual installments ranging from \$25,000 to \$54,000, plus interest at 3.50%; final payment due May 2017 489,000

\$1,608,854

Long-term debt activity for the year ended December 31, 2005, was as follows:

	<i>Beginning balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending balance</i>	<i>Amounts Due within one year</i>
Governmental activities:					
2002 Contract payable	\$ 530,000	\$ -	\$ (25,000)	\$ 505,000	\$ 25,000
Contractual agreement	662,535	-	(47,681)	614,854	43,918
2004 Installment purchase agreement	<u>514,000</u>	<u>-</u>	<u>(25,000)</u>	<u>489,000</u>	<u>25,000</u>
Total governmental activities	<u>\$ 1,706,535</u>	<u>\$ -</u>	<u>\$ (97,681)</u>	<u>\$ 1,608,854</u>	<u>\$ 93,918</u>

Charter Township of Grass Lake
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM DEBT (Continued):

At December 31, 2005, debt service requirements on long-term debt are as follows:

<i>Year ended December 31,</i>	<i>Principal</i>	<i>Interest</i>
2006	\$ 93,918	\$ 67,842
2007	93,918	63,855
2008	98,918	59,971
2009	98,918	55,957
2010	98,918	51,875
2011 - 2015	539,590	195,751
2016 - 2020	484,674	74,993
2021 - 2022	100,000	5,000
Totals	<u>\$ 1,608,854</u>	<u>\$ 575,244</u>

NOTE 7 - PAYABLES:

<i>Fund</i>	<i>Accounts</i>	<i>Inter- govern- mental</i>	<i>Sub-total</i>	<i>Interest</i>	<i>Totals</i>
General	\$ 8,472	\$ 94,261	\$ 102,733		
Fire Operating	7,693	-	7,693		
Wolf Lake Sewer	-	44,138	44,138		
Water District	5,000	-	5,000		
Building Inspections	1,815	-	1,815		
Totals	<u>\$ 22,980</u>	<u>\$ 138,399</u>	<u>\$ 161,379</u>	<u>\$ 8,500</u>	<u>\$ 169,879</u>

NOTE 8 - INTERFUND TRANSFERS:

A summary of interfund transfers for the year ended December 31, 2005, is as follows:

<i>Fund</i>	<i>Transfer In</i>	<i>Fund</i>	<i>Transfer Out</i>
Fire Building	<u>\$ 25,157</u>	Fire Operating	<u>\$ 25,157</u>

The transfer to the Fire Building Fund represents financing for costs associated with the construction of a new fire station.

Charter Township of Grass Lake
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The risks of loss arising from general liability up to \$7,000,000, property and casualty, and workers' compensation are managed through purchased commercial insurance.

NOTE 10 - DEFINED CONTRIBUTION PENSION PLAN:

The Township provides pension benefits for substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on the amounts contributed to the plan, plus investment earnings. Employees are eligible to participate one year from the date of employment. The Township's contributions are fully vested after three years. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets. The Township made the required contributions of \$12,000 for the year ended December 31, 2005.

NOTE 11 - DEFERRED COMPENSATION PENSION PLAN:

The Township provides a deferred compensation pension plan for a single elected official through a nonqualified deferred compensation plan. In this plan, benefits depend solely on the amounts deferred to the plan, plus investment earnings. The Township's contributions are fully vested immediately. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets. The Township made the required contributions of \$8,400 for the year ended December 31, 2005.

NOTE 12 - JOINT VENTURE:

Wolf Lake Sewer Common Fund:

The Township is a participant in the Wolf Lake Sewer Common Fund (the Common Fund). The administrative board of the Common Fund consists of members appointed by each participating unit. The Common Fund was formed for the purpose of acquiring and operating a sanitary sewer system. The Township utilizes the Common Fund to transport its sewage to the Jackson County Wastewater Disposal Facility for treatment and disposal. The Township has no equity interest in the Common Fund; therefore, financial information of the Common Fund has not been included in the Township's financial statements.

Costs of operations and capital asset acquisitions of the Common Fund are supported by user charges and special assessments from the participating municipalities in this sewer district. The Township has pledged its limited tax full faith and credit for its share of bonds issued by the Common Fund.

Complete financial statements for the Common Fund can be obtained from the Charter Township of Grass Lake's Treasurer's Office at 373 Lakeside Drive Grass Lake, MI 49240.

REQUIRED SUPPLEMENTARY INFORMATION

Charter Township of Grass Lake
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended December 31, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 126,600	\$ 126,600	\$ 124,096	\$ (2,504)
Licenses and permits	9,300	9,300	22,980	13,680
State grants	247,100	247,100	241,933	(5,167)
Charges for services	39,550	39,550	36,834	(2,716)
Interest and rentals	8,100	8,100	13,866	5,766
Other	12,880	12,880	40,992	28,112
Total revenues	<u>443,530</u>	<u>443,530</u>	<u>480,701</u>	<u>37,171</u>
EXPENDITURES				
Legislative	<u>13,500</u>	<u>13,500</u>	<u>12,626</u>	<u>874</u>
General government:				
Supervisor	23,038	23,038	22,582	456
Elections	3,550	3,550	-	3,550
Assessor	36,120	36,120	36,620	(500)
Clerk	46,926	46,926	42,897	4,029
Board of review	1,730	1,730	1,507	223
Treasurer	50,775	51,025	45,886	5,139
Hall and grounds	30,253	30,253	22,972	7,281
Cemetery	31,150	31,150	19,521	11,629
General administration	93,615	95,969	87,926	8,043
Total general government	<u>317,157</u>	<u>319,761</u>	<u>279,911</u>	<u>39,850</u>
Public safety - disaster relief	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Public works:				
Road preservation and maintenance	66,000	66,000	132,428	(66,428)
Solid waste disposal	30,000	30,000	21,469	8,531
Street lighting	10,000	10,000	9,686	314
Sewer	7,355	7,355	6,774	581
Total public works	<u>113,355</u>	<u>113,355</u>	<u>170,357</u>	<u>(57,002)</u>

Charter Township of Grass Lake
BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)
Year ended December 31, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Community and economic development - planning and zoning	<u>\$ 28,494</u>	<u>\$ 28,494</u>	<u>\$ 27,144</u>	<u>\$ 1,350</u>
Capital outlay	<u>45,075</u>	<u>42,721</u>	<u>27,089</u>	<u>15,632</u>
Total expenditures	<u>518,581</u>	<u>518,831</u>	<u>517,127</u>	<u>1,704</u>
NET CHANGE IN FUND BALANCES	(75,051)	(75,301)	(36,426)	38,875
FUND BALANCES - BEGINNING	<u>368,602</u>	<u>368,602</u>	<u>368,602</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 293,551</u>	<u>\$ 293,301</u>	<u>\$ 332,176</u>	<u>\$ 38,875</u>

Charter Township of Grass Lake
BUDGETARY COMPARISON SCHEDULE - Fire Operating Fund
Year ended December 31, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 215,500	\$ 215,500	\$ 213,947	\$ (1,553)
Charges for services	10,000	10,000	12,902	2,902
Interest	<u>4,500</u>	<u>4,500</u>	<u>5,779</u>	<u>1,279</u>
Total revenues	<u>230,000</u>	<u>230,000</u>	<u>232,628</u>	<u>2,628</u>
EXPENDITURES				
Public safety	140,673	140,673	121,083	19,590
Capital outlay	<u>13,900</u>	<u>16,390</u>	<u>9,975</u>	<u>6,415</u>
Total expenditures	<u>154,573</u>	<u>157,063</u>	<u>131,058</u>	<u>26,005</u>
EXCESS OF REVENUES OVER EXPENDITURES	75,427	72,937	101,570	28,633
OTHER FINANCING USES				
Transfer out - Fire Building Fund	-	-	(25,157)	(25,157)
SPECIAL ITEM				
Proceeds from sale of building	<u>-</u>	<u>-</u>	<u>89,300</u>	<u>89,300</u>
NET CHANGE IN FUND BALANCES	75,427	72,937	165,713	92,776
FUND BALANCES - BEGINNING	<u>198,095</u>	<u>198,095</u>	<u>198,095</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 273,522</u>	<u>\$ 271,032</u>	<u>\$ 363,808</u>	<u>\$ 92,776</u>

SUPPLEMENTARY INFORMATION

Charter Township of Grass Lake
COMBINING BALANCE SHEET - nonmajor governmental funds
December 31, 2005

	<u>Special revenue</u>		<u>Total nonmajor governmental funds</u>
	<u>Fire Building</u>	<u>Sports and Trails</u>	
ASSETS			
Cash	\$ 23,027	\$ 13,135	\$ 36,162
Receivables, net	<u>26,312</u>	<u>-</u>	<u>26,312</u>
Total assets	<u>\$ 49,339</u>	<u>\$ 13,135</u>	<u>\$ 62,474</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Deferred revenue	\$ 47,914	\$ -	\$ 47,914
Fund balance:			
Unreserved, undesignated	<u>1,425</u>	<u>13,135</u>	<u>14,560</u>
Total liabilities and fund balances	<u>\$ 49,339</u>	<u>\$ 13,135</u>	<u>\$ 62,474</u>

Charter Township of Grass Lake**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - nonmajor governmental funds**

Year ended December 31, 2005

	<u>Special revenue</u>		<u>Total nonmajor governmental funds</u>
	<u>Fire Building</u>	<u>Sports and Trails</u>	
REVENUES			
Taxes	\$ 43,312	\$ -	\$ 43,312
Interest	125	53	178
Other - donations	-	34,360	34,360
Total revenues	<u>43,437</u>	<u>34,413</u>	<u>77,850</u>
EXPENDITURES			
Capital outlay	31,301	21,278	52,579
Debt service:			
Principal	25,000	-	25,000
Interest	<u>17,555</u>	<u>-</u>	<u>17,555</u>
Total expenditures	<u>73,856</u>	<u>21,278</u>	<u>95,134</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(30,419)	13,135	(17,284)
OTHER FINANCING SOURCES			
Transfer in	<u>25,157</u>	<u>-</u>	<u>25,157</u>
NET CHANGE IN FUND BALANCES	(5,262)	13,135	7,873
FUND BALANCES - BEGINNING	<u>6,687</u>	<u>-</u>	<u>6,687</u>
FUND BALANCES - ENDING	<u>\$ 1,425</u>	<u>\$ 13,135</u>	<u>\$ 14,560</u>